MEDIA RELEASE

CITY OF ALCOA

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For Immediate Release

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ALCOA COMMISSION HEARS FINANCIAL PROJECTIONS

The Alcoa City Commission held a work session Monday, December 18, 2006, to hear reports concerning the City's financial projections and proposed amendments to the City's salary plan. City Manager Mark Johnson reported that the budgets for the past two fiscal years have been adopted with deficits financed by drawing on the City's fund balance. Johnson stated that, "We have tried to defer tax increases as long as possible and we felt safe in drawing down the fund balance which had increased to $4.9 million at the end of 2004." However, at the end of this fiscal year, bond rating agencies will frown on the City reducing the fund balance any further. The City has been faced with spiraling costs for equipment and supplies especially petroleum products and construction materials. That coupled with an expected loss of sales tax revenue from the opening from the second Super Wal-Mart store in Maryville this Spring will lead to a projected $1.2 million deficit for the upcoming fiscal year. Planned capital projects such as constructing a consolidated Public Works-Electric Department Service Center and the reconstruction of Middlesettlements Road will bring the anticipated shortfall to $1.9 million.

The good news is that there is a significant amount of commercial development either under construction or planned for the City which will add sales and property tax to the City's revenue stream. Johnson said that, "The future looks bright but we have to get over the hump while we wait for these new developments to come on line."

The City also plans to implement the new stormwater utility program and accompanying fee within the next few months. This will generate additional revenue to help offset the federally-mandated program that requires the City to regulate stormwater runoff from entering into streams, creeks and rivers. Businesses and residents will be billed a modest fee each month based on the amount of impervious surface which primarily includes building and pavement area that prevent rainwater from naturally absorbing into the ground.

These new sources of revenue combined with tax on retail liquor sales which was authorized by the citizens at the November election will reduce the estimated deficit to approximately $600,000.

The Commission then heard a presentation concerning the City's classification/compensation plan and how the current pay structure relates to compensation packages provided by neighboring communities and comparable jobs in private industry. Johnson informed the Commission that the City had fallen behind other local governments in the area of compensation and that there is a possibility of losing some of the City's best employees to the competition. The current City plan has been in place for several years and has a pay plan with 30 classifications or skill levels and 17 two and half percent incremental steps within each classification. Johnson pointed out that not only is the City behind in overall pay for any particular skill level, the fact that it can take up to 16 years to reach the top pay in any particular position also poses a problem when competing with other municipalities for employees. Johnson said, "We've got a lot invested in our existing employees and we certainly don't want to lose them. The fact is it's getting harder with each passing year to find replacements in many key areas and especially in the Electric and Police Departments."

In order to address this problem, the Commission was presented with a proposal to consider a plan that brings the City's salary levels up to market rate and provides for 13 five percent incremental steps between starting pay and maximum pay for any given position. Initially moving all employees to the new plan would result in an increase in overall salaries of just over three percent. The General Fund portion of this would be $166,000 during its first year of implementation. The Commission will be presented with a final version of the proposed pay plan at its February meeting which will allow the staff time to work through the details of the plan implementation during the month of January. If approved, the Commission will be requested to authorize its implementation as soon thereafter as practicable.

Considering the existing deficit and factoring in the costs of moving to the new pay plan, the City Manager informed the Commission that a tax rate somewhere in the range of $2.10 would be required to fund next year's budget. The current tax rate is $1.92 and represents the same equalized tax rate that has been in effect since 2000. Johnson stated that we will have a better handle on the exact needs as we get into the detailed budget process later this winter.

Increasing the tax rate to $2.10 would cost the average Alcoa home owner slightly over $4.00 per month. Each $0.01 increase in the tax rate generates $39,000 in new revenue for Alcoa. By comparison, Blount County with a tax rate of $2.18 generates approximately $225,000 for each penny.

The Commission also received a brief up-date from Bill Hammon, Assistant City Manager, and Tom Shamblin, Director of Schools, concerning state funding for Alcoa City Schools. Hammon reported that a joint meeting between the Alcoa City Commission, Alcoa School Board, Maryville City Council, and Maryville City School Board was being scheduled for January 16 to examine the potential effects of changes in the state education funding formulas. Shamblin and School Board Chairman, Mickey McClurg, also requested a meeting between the Alcoa City School Board and the Alcoa City Commission regarding expanding school facilities to meet the current and projected increase in student enrollment. Staff was directed to schedule this meeting in January as well.

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